



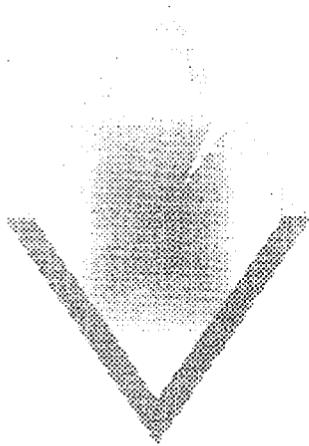
In conclusion

- ◆ Local competition is taking place in the Bell Atlantic region
- ◆ Resellers and CLECs are competing in the business and residential markets
- ◆ Wholesale products, systems, interfaces, centers, measurements and processes are in place to help market entry
- ◆ National standards are evolving
- ◆ Bell Atlantic is taking the lead in implementing the Telecom Act

Comparison of Competitive Entry (as of 1/31/98)

| | New York | Texas | California |
|--|-----------------|--------------|-------------------|
| Total Trunks | 130,000 | 53,000 | 120,000 |
| Collocation | 212 | 141 | 394 |
| Total Orders | 15,500 | 86,000 | 40,000 |
| % Electronic | 95% | 25% | 20% |
| Loops | 20,000 | 260 | 30,600 |
| UNE or Platform | 1,900 | 242 | 89 |
| Ported Numbers | 44,400 | 10,139 | 22,758 |
| Resold – Business | 110,000 | 40,000 | 105,000 |
| Resold – Residence | 23,000 | 176,000 | 148,000 |
| Total Resale | 133,000 | 216,000 | 253,000 |
| MOUs to CLEC | 1,021,000,000 | 36,000,000* | NA |
| MOUs to BA | 189,828,000 | 48,000,000* | 52,000,000* |
| Competitor Lines (including Resale) | 403,000 | NA | NA |

* without Internet



**Bell Atlantic - New York
TELRIC Costs and UNE Pricing**

Pat Garzillo

Service Costs

March 24, 1998



Forward Looking Cost Methodology

■ *Investment Costs*

- *Forward looking technology costs are representative of immediate future capital expenditures faced by the Company in the future*
- *Rates assume that customers will subscribe to the service throughout the economic life of the equipment*

■ *Non-Recurring Costs*

- *Traditionally, NRC rates are set for the current year to capture incurred costs for ordering and provisioning services to insure prompt cost recovery*
- *NRC rates based on hypothetical, untested, or purely theoretical provisioning approaches will cause the Company to under-recover today's forward-looking costs of doing business (and will be exacerbated by increased customer churn in a competitive marketplace)*
- *Need a "feedback mechanism" to determine if wholesale NRC rates are recovering the incurred provisioning costs of a new wholesale market as well as capture further efficiencies realized as all market participants gain experience and new systems reap benefits*



TELRIC Forward Looking Cost Assumptions



■ *Loop*

- *Integrated Digital Loop*
- *100% Fiber Feeder*
- *Copper Distribution*

■ *Switching*

- *100% Digital Switching*
- *ISDN Capable*

■ *Interoffice Facilities*

- *100% SONET Fiber Facilities*

■ *Signaling System #7*

- *Signal Transfer Points, Service Control Points*



TELRIC Filed Costs versus Commission Approved Rates

| UNE | TELRIC FILED COSTS | COMMISSION APPROVED RATES |
|---------------------------|--------------------------|---------------------------------|
| LINK - MAJOR CITIES | \$16.75 | \$12.49 |
| LINE PORT | \$6.03 | \$2.50 |
| LOCAL SWITCH USAGE-DAY | \$0.00762/MOU | \$0.00381/MOU |
| TANDEM PORT | \$13.99 | \$5.28 |
| DS3 - FIXED + PER MILE | \$1134.70 + \$25.09/mile | \$911 + \$20.10/mile |
| STP PORT | \$1532.22 | \$775.22 |



Cost Study Assumptions

| STUDY INPUT | BA-NY FILED | NYPSC ORDERED |
|-------------------|----------------------------------|--|
| LINK FILL FACTORS | DESIGN CONSTRUCT FILL FACTORS | OBJECTIVE FILL FACTORS |
| SWITCH DISCOUNTS | GROWTH DISCOUNT | MIX OF SWITCH REPLACEMENT AND GROWTH DISCOUNT |
| COST OF MONEY | 13.18% | 10.2% |
| DEPRECIATION | ECONOMIC LIVES | PRESCRIBED RATES |
| OVERHEADS | BASED ON WHOLESALE FACTORS | AVOIDED RETAIL PLUS 10% REDUCTION FOR PRODUCTIVITY |



Impact of Forward Looking Cost Assumptions



- *Current investment of \$16B reduced to \$10B based on TELRIC approved rates*
- *Removed \$1.1B in current expenses based on removal of retail marketing and indirect costs*
- *Reduced copper distribution maintenance to reflect new copper placement*
- *Calculation of TELRIC rates based on traditional expense to investment relationships*
 - *As future investments decrease, incurred maintenance/administrative costs do not decrease at the same rate*



Non-Recurring Link Installation Costs



- *BA Cost Methodology*
- *Reviewed work operations required to install a link for a TC*
 - *Coordination Bureau*
 - *RCMAC (switch translations)*
 - *LDMC (loop assignment)*
 - *Central Office Frame (cross connect wiring)*
- *Calculated Weighted Average Times by work function*
- *Reviewed time estimates to reflect OSS mechanization as well as BAU process improvements*
- *Reduced time estimates for three of the four work groups reflecting potential system/process efficiencies*



Non-Recurring Service Order Costs



- *BA Cost Methodology*
- *Reviewed work operations at Carrier Account Team Center (CATC)*
 - *Hot Cuts and New Link Orders*
 - *Orders for One Link, Two-Nine Links, and greater than Nine Links*
- *Surveyed CATC representatives for three time estimates*
 - *Minimum, Maximum, and Most Likely*
- *Developed Weighted Average Time Estimate*
 - $(\text{Min.} + 4 * \text{Most Likely} + \text{Max.}) / 6$
- *Reviewed time estimates to account for OSS mechanization*
 - *Single link order times for both New and Hot Cut service reduced to **zero** to reflect the use of DCAS ordering by the TCs*



PSC Phase II Order No. 97-19 on Non-Recurring Costs

- *Replaced Average Weighted Times with Minimum time estimates*
 - *Selected the "outlier" time estimate*
 - *Represents the simplest job faced by the representative/technician as opposed to the full range of job complexity captured by the complete Min/Max/Most Likely survey results*
 - *For those time estimates that represented the experience of a single subject matter expert (because in some cases the activity in question has not as yet been performed) the Company's time estimates were reduced by 43%*
- *For the link installation, today's current multi-cross connect provisioning process was rejected for a future electronic cross connect assumption*
 - *Fails to recognize costs that are being incurred today due to the requirement to connect the link frame appearance(s) to the TCs' Collocation Cage*
 - *Current provisioning activities will be required in most central offices for the foreseeable future*
 - *Present technology selection (IDLC) may be replaced/outmoded during this period*
- *The NYPSC postponed the use of an "electronic cross connect" time estimate for a one year period.*



Non-Recurring Costs Loop (SVGAL)

| ELEMENT | FILED COSTS | | APPROVED RATES | |
|--------------|-------------|---------|----------------|---------|
| | New Link | Hot Cut | New Link | Hot Cut |
| 1 Link | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| 2 - 9 Links | \$0.00 | \$14.99 | \$0.00 | \$7.50 |
| 10 or More | \$14.99 | \$14.99 | \$8.70 | \$8.70 |
| Provisioning | \$57.34 | \$86.81 | \$28.44 | \$44.86 |



Non-Recurring Costs

End Office Line Port



| ELEMENT | FILED COSTS | APPROVED RATES |
|---------------|----------------|-------------------|
| SERVICE ORDER | \$0.00 | \$0.00 |
| PROVISIONING | \$44.79 | \$32.70 |



TELRIC Phase III

(March 1998)



- *CENTREX/ISDN Features*
- *Non-Recurring Provisioning Costs*
- *SS7 Transport & AIN*
- *Operator Services & Directory Information*
- *Collocation*
 - *Physical and Virtual*



Costs for Opening up the Local Network



- One-Time Development Onset Expenses
 - Methods and Procedures
 - Interfaces and New Functionalities/Systems
 - Modifications to existing systems
- Ongoing Onset Expenses
 - Investment-related
 - Keeping One-time development current
 - New activity costs
- Specific Carrier Requirements



One-Time Development Onsets - (for System Demonstrated)



- \$107M of Expense for OSS implementation
 - Interface/Functionality/System development
 - Requisite modifications in existing systems
 - Necessary methods & procedures
- \$31.3M of Incremental Investments
- The Company's effort was mandated by the Act and the express requirements of Carriers



Cost Onsets: Charges During Recovery Period



RATE ELEMENTS

BA-NY PROPOSED

NYPSC ORDER

| | | |
|-------------------------|-------------|----------|
| RESELLERS | \$2,464/Mo | DEFERRED |
| CLECs | \$4,743/Mo | DEFERRED |
| COST PER TRANSACTION | \$0.96/Each | DEFERRED |



Activity-Related Charges

- Non-recurring charges apply when an End-User switches to a competitor to recover the costs associated with the required activities.
- Solvent businesses pass along costs associated with providing products and services to the users of those products and services.
- Costs incurred by Bell Atlantic to provide service to End-Users (new or migrating from a competitor) are passed on to the End-Users as non-recurring charges and/or the actual rates of the services.



Who Should Pay?

- The most appropriate method, and the one that most promotes economic efficiency in a market is that recovery should come from the cost causers.
 - Many of the costs are required in order to achieve the avoidable-cost “savings” that have already been passed on to the Resellers and CLECs.
- Various parties have suggested that the costs be recovered from: The Carriers, Shareholders of the ILECs , the End-Users, Other Sources.
- Difficulties exist in recovering costs from certain groups due to existing regulatory environments.

Wholesale Performance Reports

Bell Atlantic

Julie Canny

March 24, 1998

Agenda

The Evolution of Performance Metrics:

- ❑ FCC Merger Order
 - Reports
 - Negotiate Standards & Remedies
- ❑ DOJ Additional Requirements for LD Entry

How to determine parity???

The Moving Target

- ☐ *LCUG: Local Competitors Users Group*
- ☐ *State Service Proceedings (NY)*
- ☐ *Individual Carrier Negotiations/Arbitrations*
- ☐ *DOJ/FCC Comments on 271 Filings*
- ☐ *FCC Merger Order*
- ☐ *DOJ Letter to SBC*



FCC Order on Bell Atlantic Merger

- ☐ Performance Reports
- ☐ Negotiate Standards subject to mutuality
- ☐ Negotiate Self Enforcement Mechanisms

Bell Atlantic FCC Reports

☐ *22 Categories for each of 14 jurisdictions:*

- Pre-Ordering (2 measures)
- Ordering (5 measures)
- Provisioning (6 measures)
- Network Performance (2 measures)
- Maintenance (5 measures)
- Billing (2 measures)

☐ *Services Measured:*

- Operational Support Systems (OSS)
- Interconnection Trunks
- Unbundled Network Elements (POTS & Specials)
- Resale (POTS & Specials)

Bell Atlantic FCC Merger Agreement - Reporting:

☐ ***Customer Groups:***

- To FCC:
 - Aggregate of CLECs
 - Bell Atlantic
 - Bell Atlantic Subsidiary (When/If Created)
- To Carriers:
 - Individual CLEC Performance

☐ ***Geography:***

- By State

☐ ***Time frame***

- Quarterly with Monthly Information
- 45 Days after Close of Quarter